

Financial Statements

**Barry County Community
Mental Health Authority**

Hastings, Michigan

September 30, 2005



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Barry County Community Mental Health	County Barry
Audit Date 9/30/05	Opinion Date 12/6/05	Date Accountant Report Submitted to State: 3/28/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

RECEIVED
DEPT. OF TREASURY

MAR 29 2006

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

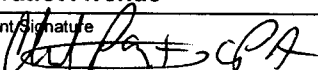
LOCAL AUDIT & FINANCE DIV.

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) Roslund, Prestage & Company, P.C.			
Street Address 308 Gratiot Avenue		City Alma	State MI
Accountant Signature 		ZIP 48801	Date 3/28/06

Barry County Community Mental Health Authority
Table of Contents
September 30, 2005

Independent Auditor's Report

Management's Discussion and Analysis I – V

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Assets	1
Statement of Activities	2

Fund Financial Statements:

Balance Sheet – Governmental Funds	3
------------------------------------	---

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	4
---	---

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5
--	---

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
---	---

Statement of Net Assets – Proprietary Funds	7
---	---

Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	8
---	---

Statement of Cash Flows – Proprietary Funds	9
---	---

Notes to the Financial Statements	10 - 24
-----------------------------------	---------

Required Supplemental Information:

Budgetary Comparison Schedules	25
--------------------------------	----

Other Supplemental Information:

Individual Fund Statements:

General Fund – Statement of Expenditures	26 – 27
--	---------

Government Auditing Standards Audit Reports	28 - 29
--	---------

INDEPENDENT AUDITOR'S REPORT

Barry County Community Mental Health Authority
Hastings, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Barry County Community Mental Health Authority (the Authority), as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2005 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages I-V, and budgetary comparison information on page 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Co., P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 6, 2005

MANAGEMENT'S DISCUSSION and ANALYSIS

Barry County Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis

The management of Barry County Community Mental Health Authority (BCCMHA) presents the following overview and analysis of financial activities during the past fiscal year. BCCMHA was created as a Mental Health Authority effective March 1, 2002.

Overview of Financial Statements

Two types of financial statements are provided: Government-wide Statements and Fund Statements.

The government-wide financial statements are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of BCCMHA's assets and liabilities with the difference between assets and liabilities being reported as net assets. Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an accrual basis meaning that the change in net assets is reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related movement of cash.

The fund financial statements report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. BCCMHA, as a governmental authority, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These funds are divided into two categories: governmental funds and proprietary funds.

Governmental funds/General Fund has a narrower focus than that of the government-wide financial statements in that its focus is on the short-term movement of spendable resources and on the balances of spendable resources available at the end of the fiscal year.

Proprietary fund is an internal service fund which is held as a self-insurance against future risk. This fund consists of State of Michigan General Funds and accumulated interest and must be held for future risk or used to provide authorized services to eligible persons.

A crosswalk between government-wide and fund statements is included as Appendix A to this discussion. By comparing the two types of statements, the reader may better understand the long-term impact of the organization's immediate year decisions.

Comparison with Prior Year

Fiscal year 2004 revenues were \$4,653,404 compared to fiscal year 2005 revenues of \$4,845,349. This increase was mainly attributable to an increase in Medicaid funding due to increased persons eligible for service and a change in how rates were determined at the state level. Fiscal year 2004 expenses were \$4,546,072 compared to fiscal year 2005 expenses of \$4,763,606. This increase was attributed to several things including annual salary increases, increase in business costs due to inflation, capital expenditures, and an increase in number of services provided.

Strength of Financial Position

Changes in financial position which help ensure the agency's future ability to provide services are:

	Balance at 10/1/2004	Increase (Decrease)	Balance at 9/30/05
Internal Service Funds			
Total Internal Service Funds	<u>\$144,148</u>	<u>(\$16,133)</u>	<u>\$128,015</u>
General Fund			
Fund Balance			
Restricted	61,764	2,458	64,222
Unrestricted	<u>335,643</u>	<u>87,611</u>	<u>423,254</u>
Total Fund Balance	\$397,407	\$90,069	\$487,476

The Internal Service Funds together with the unrestricted fund balance of the General Funds represent an estimated 42.3 days of operations based on daily operational needs. This is an increase of 3.8 days over fiscal year 2004.

A crosswalk for the statement of Assets and Funds is included with this document as Appendix A. This statement gives a breakdown of what comprises the government wide calculations for Assets, Liabilities, and Total Net Assets and Fund Balance. As the statement notes, the Total Net Assets and Fund Balance is \$627,653 which is an increase of \$85,033 over fiscal Year 2004.

BCCMHA remains in good financial condition based on the above information. Due to the ability to retain excess Adult Benefit Waiver and local funding and prudent budget control, the overall financial position has continued to improve on a yearly basis.

Analysis of Significant Budgetary Variations

The variance between final and actual for general fund formula and categorical revenue is the amount of savings the agency is allowed to carryforward and the amount that was unused and returned to the Department of Community Health. The variance between the original and final budgeted amounts for Adult Benefit Waiver revenue was due to capped enrollment during a portion of the year. There was also a variance between the original and final budget for Medicaid revenue. This was due to additional funding received due to the change in how Medicaid rates are determined and an increase in those eligible for Medicaid services. The difference between final budget and actual for Medicaid revenue is partially due to unused Medicaid funding that was returned to Summit Pointe, and the fact that the agency received less than originally projected due to the rate determination change.

About Fiscal Year 2005

In fiscal year 2005, BCCMHA continued to invest in certificates of deposit in an effort to maximize interest. A laddering system was again used to allow maximum investing without restricting large amounts of agency cash. Total interest earned during the year was \$5,012 compared to fiscal year 2004 earnings of \$2,079.

BCCMHA had six consumers enrolled in the Habilitation Supports waiver program through Medicaid. This program allows for additional services and funding for consumers residing in specialized residential homes who would otherwise reside in an institution. This provided \$197,276 in additional funding for fiscal year 2005.

The Adults Benefit Waiver was introduced as a new funding stream in 2004. This category provides benefit to consumers who were originally covered under the Medicaid State Medical plan. This plan provides coverage for a list of selected services. BCCMHA received funding for fiscal year 2005 of \$142,275 compared to fiscal year 2004 of \$181,796. This variance was mainly attributed to capped enrollment during a part of the year. Expenditures on this population for fiscal year 2005 were \$65,438 compared to fiscal year 2004 spending of \$73,033. BCCMHA was able to carry forward \$76,837 into fiscal year 2006 as local funding per contract language.

In fiscal year 2005, a new rotary filing system and twenty-three computer terminals were purchased to meet HIPAA (Health Insurance Portability and Accountability Act) compliance standards. Due to an increase in client community involvement, a 2005 Pontiac Vibe was purchased to increase transportation options. These purchases have increased staff efficiency and consumer satisfaction.

BCCMHA remained conservative throughout 2005; however, increased Medicaid funding as mentioned above afforded the agency the opportunity to make necessary purchases and meet a consistently increasing consumer demand for services. BCCMHA served 1424 in fiscal year 2005 compared to 1346 in fiscal year 2004.

About the Future

BCCMHA was again fortunate to remain virtually unaffected by state budget cuts. Due to a recalculation of Medicaid rates, BCCMHA realized an increase in Medicaid funding which served the agency well in a time of increased demand for services. General Fund income has not increased. However, due to the conservative culture that BCCMHA has fostered, the agency has been able to continue to provide services as needed in the county. There is speculation in the mental health field that the state will be seeking changes to the Medicaid funding agreement with the federal government. However, it remains too early to speculate how this will affect community mental health. BCCMHA will continue to provide services to Barry County consumers in a conservative manner while remaining open to new programs and service opportunities.

Crosswalk: Government-wide Statement of Assets and Funds Statements

	Government Wide	General Fund	Governmental Activities/ISF	Fixed Assets	Long-term Debt
Assets					
Current Assets					
Cash and cash equivalents	1,341,803	1,213,788	128,015		
Due from other governmental units	5,619	5,619			
Prepaid items	<u>64,222</u>	<u>64,222</u>			
Total current assets	<u>1,411,644</u>	<u>1,283,629</u>	<u>128,015</u>		
Noncurrent assets					
Capital assets - depreciable, net	<u>152,925</u>			<u>152,925</u>	
Total Assets	<u>1,564,569</u>	<u>1,283,629</u>	<u>128,015</u>	<u>152,925</u>	
Liabilities					
Current liabilities					
Accounts Payable	175,951	175,951			
Accrued wages and other payroll liabilities	78,577	78,577			
Deferred Revenue	85,344	85,344			
Due to other governmental units	<u>456,281</u>	<u>456,281</u>			
Total current liabilities	<u>796,153</u>	<u>796,153</u>			
Noncurrent liabilities					
Compensated absences	<u>140,763</u>				<u>140,763</u>
Total Noncurrent Liabilities	<u>140,763</u>				
Total Liabilities	<u>936,916</u>	<u>796,153</u>			<u>140,763</u>
Net Assets/Fund Balance					
Invested in capital assets, net of related debt	152,925			152,925	
Reserved for risk management	128,015		128,015		
Unrestricted	<u>346,713</u>	<u>487,476</u>			
Total Net Assets/Fund Balance	<u>627,653</u>	<u>487,476</u>	<u>128,015</u>	<u>152,925</u>	<u>140,763</u>

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT WIDE FINANCIAL STATEMENTS**

Barry County Community Mental Health Authority
Statement of Net Assets
September 30, 2005 and 2004

	Governmental Activities	
	2005	2004
Assets		
Current assets		
Cash and cash equivalents	\$1,341,803	\$903,754
Accounts receivable	-	7,458
Due from other governmental units	5,619	20,643
Prepaid items	64,222	61,764
Total current assets	1,411,644	993,619
Noncurrent assets		
Capital assets - depreciable, net	152,925	132,989
Total assets	1,564,569	1,126,608
Liabilities		
Current liabilities		
Accounts payable	175,951	168,867
Accrued wages and other payroll liabilities	78,577	66,271
Deferred revenue	85,344	83,856
Due to other governmental units	456,281	133,070
Total current liabilities	796,153	452,064
Noncurrent liabilities		
Compensated absences	140,763	131,924
Total noncurrent liabilities	140,763	131,924
Total liabilities	936,916	583,988
Net Assets		
Invested in capital assets, net of related debt	152,925	132,989
Restricted for risk management	128,015	144,148
Unrestricted	346,713	265,483
Total net assets	\$627,653	\$542,620

See Accompanying Notes To Financial Statements

Barry County Community Mental Health Authority
Statement of Activities
For the Year Ended September 30, 2005, With Comparative Data

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2004
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$4,760,188</u>	<u>\$3,074,664</u>	<u>\$1,759,119</u>	\$73,595	\$106,869
General revenues					
Unrestricted investment earnings				11,566	5,825
Restricted investment earnings				<u>1,362</u>	<u>1,199</u>
Total general revenues and contributions				<u>12,928</u>	<u>7,024</u>
Change in net assets				86,523	113,893
Net assets - beginning of year				542,620	395,866
Prior period adjustment				<u>(1,490)</u>	<u>32,861</u>
Net assets - end of year				<u>\$627,653</u>	<u>\$542,620</u>

See Accompanying Notes To Financial Statements

FUND FINANCIAL STATEMENTS

Barry County Community Mental Health Authority
Balance Sheet
Governmental Funds
September 30, 2005 and 2004

	General Fund	
	2005	2004
Assets		
Cash and cash equivalents	\$1,213,788	\$759,606
Accounts receivable	-	7,458
Due from other governmental units	5,619	20,643
Prepaid items	64,222	61,764
Total assets	<u>\$1,283,629</u>	<u>\$849,471</u>
Liabilities		
Accounts payable	\$175,951	\$168,867
Accrued wages and other payroll liabilities	78,577	66,271
Deferred revenue	85,344	83,856
Due to other governmental units	456,281	133,070
Total liabilities	<u>796,153</u>	<u>452,064</u>
Fund balances		
Reserved for prepaid items	64,222	61,764
Unreserved	423,254	335,643
Total fund balances	<u>487,476</u>	<u>397,407</u>
Total liabilities and fund balances	<u>\$1,283,629</u>	<u>\$849,471</u>

See Accompanying Notes To Financial Statements

Barry County Community Mental Health Authority
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets
For the Year Ended September 30, 2005

Total fund balance - governmental funds	\$487,476
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Add: capital assets	377,199
Deduct: accumulated depreciation	(224,274)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	128,015
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:	
Deduct: Compensated absences	(140,763)
Net assets of governmental activities	<u>\$627,653</u>

See Accompanying Notes To Financial Statements

Barry County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2005 and 2004

REVENUES	<u>2005</u>	<u>2004</u>
State grants		
Department of Community Health Contract		
General Fund Formula and Categorical	\$1,403,347	\$1,497,848
Adult Benefit Waiver	142,275	181,796
Other state grants	39,740	40,565
Total state grants	<u>1,585,362</u>	<u>1,720,209</u>
Federal grants	<u>10,260</u>	<u>13,160</u>
Contributions - local units		
County appropriations	<u>154,500</u>	<u>154,500</u>
Charges for services		
Medicaid	2,991,445	2,663,552
Client and third party pay	83,219	89,478
Total charges for services	<u>3,074,664</u>	<u>2,753,030</u>
Interest and rents		
Interest	<u>11,566</u>	<u>5,825</u>
Other revenue		
Miscellaneous	<u>8,997</u>	<u>6,680</u>
Total revenues	4,845,349	4,653,404
EXPENDITURES		
Health & Welfare - Mental Health		
Personnel costs	2,211,518	2,131,531
Operating expenditures	2,489,433	2,345,673
Capital outlay	62,655	37,368
Debt service	<u>-</u>	<u>31,500</u>
Total expenditures	<u>4,763,606</u>	<u>4,546,072</u>
Revenues over (under) expenditures	81,743	107,332
Other financing sources (uses)		
Operating transfers in - Internal service fund	<u>9,816</u>	<u>-</u>
Fund balance, beginning of year	397,407	257,214
Prior period adjustment	<u>(1,490)</u>	<u>32,861</u>
Fund balance, end of year	<u><u>\$487,476</u></u>	<u><u>\$397,407</u></u>

See Accompanying Notes To Financial Statements

Barry County Community Mental Health Authority
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2005

Net change in fund balances - total governmental funds	\$81,743
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	62,655
Deduct: depreciation expense	(42,719)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The interest income of that fund is reported with governmental activities.	
Add: interest income	1,362
Less: transfers to other governmental units	(7,679)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Less: Increase in accrual for compensated absences	<u>(8,839)</u>
Change in net assets of governmental activities	<u><u>\$86,523</u></u>

See Accompanying Notes To Financial Statements

Barry County Community Mental Health Authority
Statement of Net Assets
Proprietary Funds
September 30, 2005 and 2004

	<u>Internal Service Funds</u>	
	<u>2005</u>	<u>2004</u>
Assets		
Cash and cash equivalents	<u>\$128,015</u>	<u>\$144,148</u>
Net assets		
Restricted	<u>\$128,015</u>	<u>\$144,148</u>

See Accompanying Notes To Financial Statements

Barry County Community Mental Health Authority
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2005 and 2004

	<u>Internal Service Funds</u>	
	<u>2005</u>	<u>2004</u>
Operating transfers		
Operating transfers out -		
Michigan Department of Community Health	(\$7,679)	
Operating transfers out - General Fund	<u>(9,816)</u>	<u>-</u>
Operating income (loss)	(17,495)	-
Non-operating revenues		
Interest income	<u>1,362</u>	<u>\$1,199</u>
Change in net assets	(16,133)	1,199
Net assets, beginning of year	<u>144,148</u>	<u>142,949</u>
Net assets, end of year	<u><u>\$128,015</u></u>	<u><u>\$144,148</u></u>

See Accompanying Notes To Financial Statements

Barry County Community Mental Health Authority
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2005 and 2004

	<u>Internal Service Funds</u>	
	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Internal activity - operating transfers out	<u>(\$17,495)</u>	<u>-</u>
Net cash provided by operating activities	(17,495)	-
Cash flows from investing activities		
Interest income	<u>1,362</u>	<u>\$1,199</u>
Net cash provided by investing activities	1,362	1,199
Net increase (decrease) in cash	(16,133)	1,199
Cash and cash equivalents, beginning of year	<u>144,148</u>	<u>142,949</u>
Cash and cash equivalents, end of year	<u><u>\$128,015</u></u>	<u><u>\$144,148</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	<u>(\$17,495)</u>	<u>-</u>
Cash flows from operating activities	<u><u>(\$17,495)</u></u>	<u><u>-</u></u>

See Accompanying Notes To Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

Barry County Community Mental Health Authority
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Barry County Community Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Barry County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Barry County Community Mental Health Authority
Notes to the Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end.

Barry County Community Mental Health Authority
Notes to the Financial Statements

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the cash basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues are not material to the financial statements.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Barry County Community Mental Health Authority
Notes to the Financial Statements

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Barry County Community Mental Health Authority
Notes to the Financial Statements

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Barry County Community Mental Health Authority
Notes to the Financial Statements

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements and proprietary fund financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Computer Equipment	5
Furniture / Fixtures	5 – 15
Office Equipment	5 – 10
Automobiles	5

Deferred Revenue

Deferred revenue arises when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Barry County Community Mental Health Authority
Notes to the Financial Statements

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority. This liability is included in accounts payable and due to other governmental units.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Barry County Community Mental Health Authority
Notes to the Financial Statements

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2005, the Authority incurred expenditures in excess of the amounts appropriated as shown on pages 25 of this report.

NOTE 3 – DETAIL NOTES

Cash and Cash Equivalents

At September 30th, the carrying amount of the Authority's cash and cash equivalents are as follows:

	2005	2004
Petty Cash	\$370	\$175
Cash deposits	1,041,433	603,579
Certificates of deposit	300,000	300,000
Totals	\$1,341,803	\$903,754

At year-end, the carrying amount of the Authority's cash deposits was \$1,341,433, and the bank balance was \$1,424,966. Of the bank balance, \$100,000 was covered by federal depository insurance and the remaining, was uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Barry County Community Mental Health Authority
Notes to the Financial Statements

Due from Other Governmental Units

Due from other governmental units as of September 30, consists of the following:

	2005	2004
MDCH - OBRA Grant	\$656	\$1,302
MDCH – Juvenile Justice Grant	3,816	4,517
MDCH – Other Grants	-	1,331
Barry County	1,147	1,459
Calhoun County CMH Authority	-	12,034
Totals	\$5,619	\$20,643

Capital Assets

A summary of changes in the Authority's capital assets follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Computer and Office Equipment	\$238,982	\$33,104	\$-	\$272,086
Furniture and Fixtures	51,352	8,993	-	60,345
Vehicles	24,210	20,558	-	44,768
Sub-totals	314,544	62,655	-	377,199
Accumulated Depreciation	(181,555)	(42,719)	-	(224,274)
Totals	\$132,989	\$19,936	\$-	\$152,925

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Barry County Community Mental Health Authority
Notes to the Financial Statements

Due To Other Governmental Units

As of September 30, this liability consists of the following:

	2005	2004
State of Michigan - Inpatient Services	\$8,005	-
Department of Community Health - Cost Settlement	317,343	\$102,458
Calhoun County CMH Authority	130,933	30,612
Totals	\$456,281	\$133,070

Long Term Liabilities

Compensated Absences

Authority policy allows full time employees to accumulate vacation times at various rates, depending on the employee's length of service with the Authority. As of September 30, 2005 and 2004, these liabilities totaled \$140,763 and \$131,924 respectively.

The changes in long term liabilities during the 2005 fiscal year are as follows:

Liability	Beginning Balance	Additions	Reductions	Ending Balance
Compensated Absences	\$131,924	\$8,839	-	\$140,763

Barry County Community Mental Health Authority
Notes to the Financial Statements

Operating Leases

The Authority has entered into various operating leases for the use of real property. Operating leases do not give rise to property rights or lease obligations, and therefore, are not reported as assets or liabilities in these financial statements.

The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30th:

YEAR ENDING SEPTEMBER 30,	AMOUNT
2006	\$299,236
2007	299,236
2008	75,133
2009	54,760
2010	31,943
2011 – 2015	-0-

NOTE 4 - OTHER INFORMATION

Employee Retirement and Benefit Systems

Plan Description

The Authority participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all of the Authority's regular full-time employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

The most recent period for which actuarial data was available was for the year ended December 31, 2004. The Authority's payroll for the employees covered by the system for the year ended December 31, 2004 was \$1,325,847.

Barry County Community Mental Health Authority
Notes to the Financial Statements

As of December 31, 2004, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits	0
Active plan participants	40
Vested former members	3
Total	43

Funding Policy

Under the provisions of this plan, members contribute approximately ½ of 1% of annual compensation. If a member leaves the Authority or dies, without a retirement allowance or other benefit payable on his / her account, his / her accumulated contributions will be refunded to him / her, if living, or to his / her nominated beneficiary.

Benefit programs and provisions are established by the Retirement Board. All benefits vest after 10 years of service, except that benefits may vest after eight or six years of service if adopted by the municipality's governing body. The standard retirement age is 60 years; however, members may retire with several combinations of age and years of service and receive reduced early retirement benefits. Municipalities may adopt various other benefit programs which allow retirement at an earlier age with unreduced benefits based upon combinations of age and years of service, or just years of service. MERS also provides non-duty disability and death benefits to members after vesting requirements are met.

Funding Status and Progress

The amount shown below as the "pension benefit obligation" is based on the standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and separate benefits, estimated to be payable in the future as a result of employee services to date. The measure is the actuarial present value of credited projected benefits and is intended to (1) help users assess the plan's funding status of the system on a going-concern basis; (2) assess progress made in accumulating sufficient assets to pay benefits when due; and (3) make comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

Barry County Community Mental Health Authority
Notes to the Financial Statements

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2004. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0% and (b) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

At December 31, 2004, the assets were less than the pension benefit obligation by \$386,119, determined as follows:

GASB 25 Information	
Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$0
Terminated employees not yet receiving benefits	20,725
Non-vested terminated employees	6,224
Current Employees:	
Accumulated employee contributions including allocated investment income	96,774
Employer financed	1,713,228
Total actuarial accrued liability	1,836,951
Net assets available for benefits at actuarial value (market = \$1,416,185)	1,450,832
Unfunded actuarial accrued liability	\$386,119
GASB 27 Information	
Fiscal Year Beginning	April 1, 2006
Annual Required Contribution (ARC)	\$107,268
Amortization factor used – under-funded liabilities (30 years)	.053632

Barry County Community Mental Health Authority
Notes to the Financial Statements

Three year trend information follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Fund Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12-31-02	994,410	1,452,890	(458,480)	68%	1,193,393	39%
12-31-03	1,225,999	1,782,111	(556,112)	69%	1,364,764	41%
12-31-04	1,450,832	1,836,951	(386,119)	79%	1,325,847	29%

Risk Management

Michigan Municipal Risk Management Authority

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment for each occurrence that falls within the member's self-insured retention (SIR). The Authority's SIR is between \$-0- and \$250. After the Authority's SIR and deductibles have been satisfied, MMRMA will be responsible for paying all remaining costs, including damages, indemnification, and allocated loss adjustment expenses to the limits of coverage stated below.

MMRMA's coverage limits are between \$2,000 and \$5,000,000 for liability, and between \$10,000 and \$200,000,000 for property and crime.

The contribution made by the Authority to the MMRMA was \$20,036 for the period July 1, 2004 to July 1, 2005.

Barry County Community Mental Health Authority
Notes to the Financial Statements

Risk Management – Internal Service Fund

During the September 30, 1998 fiscal year, the Authority authorized the establishment of an Internal Service Fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program (MCSSP) contract. This contract provides for the use of Department of Community Health funding for the establishment of an Internal Service Fund, which is restricted to meet the expected future risk corridor requirements of the contract. Expenditures from the Internal Service Fund will occur when, in any one fiscal year, the Authority finds it necessary to expend more to provide services necessary to carry out the MCSSP contract requirements than revenue provided to the Authority by the contract.

Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures, which may be disallowed by the granting agencies.

Prior Period Adjustment

The following transactions were recognized in these financial statements as prior period adjustments:

Description	2005	2004
Adjustment to prior year cost settlement document filed with the Michigan Department of Community Health	-	\$32,430
Other	(\$1,490)	431
Totals	(\$1,490)	\$32,861

REQUIRED SUPPLEMENTAL INFORMATION

Barry County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the Year Ended September 30, 2005

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
REVENUES				
State grants				
Department of Community Health Contract				
General Fund Formula and Categorical	\$1,764,367	\$1,798,354	\$1,403,347	(\$395,007)
Adult Benefit Waiver	183,355	141,254	142,275	1,021
Other state grants	40,786	40,786	39,740	(1,046)
Total state grants	<u>1,988,508</u>	<u>1,980,394</u>	<u>1,585,362</u>	<u>(395,032)</u>
Federal grants	<u>14,500</u>	<u>14,500</u>	<u>10,260</u>	<u>(4,240)</u>
Contributions - local units				
County appropriations	<u>154,500</u>	<u>154,500</u>	<u>154,500</u>	<u>-</u>
Charges for services				
Medicaid	2,606,781	3,576,786	2,991,445	(585,341)
Client and third party pay	70,000	80,000	83,219	3,219
Total charges for services	<u>2,676,781</u>	<u>3,656,786</u>	<u>3,074,664</u>	<u>(582,122)</u>
Interest and rents				
Interest	<u>6,000</u>	<u>6,000</u>	<u>11,566</u>	<u>5,566</u>
Other revenue				
Miscellaneous	<u>3,700</u>	<u>7,135</u>	<u>8,997</u>	<u>1,862</u>
Total revenues	<u>4,843,989</u>	<u>5,819,315</u>	<u>4,845,349</u>	<u>(973,966)</u>
EXPENDITURES				
Health & Welfare - Mental Health				
Current:				
Personnel costs	2,161,498	2,256,303	2,211,518	44,785
Operating expenditures	2,656,173	2,640,121	2,489,433	150,688
Capital outlay	<u>5,000</u>	<u>17,300</u>	<u>62,655</u>	<u>(45,355)</u>
Total expenditures	<u>4,822,671</u>	<u>4,913,724</u>	<u>4,763,606</u>	<u>150,118</u>
Revenues over (under) expenditures	21,318	905,591	81,743	(823,848)
Other financing sources (uses)				
Operating transfers in	<u>-</u>	<u>-</u>	<u>9,816</u>	<u>9,816</u>
Fund balance, beginning of year	397,407	397,407	397,407	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(1,490)</u>	<u>(1,490)</u>
Fund balance, end of year	<u>\$418,725</u>	<u>\$1,302,998</u>	<u>\$487,476</u>	<u>(\$815,522)</u>

See Accompanying Notes To Financial Statements

OTHER SUPPLEMENTARY INFORMATION

Barry County Community Mental Health Authority
Supporting Schedule of Personnel Costs
For the Year Ending September 30, 2005 and 2004

Governmental Fund Types

General Fund

	<u>2005</u>	<u>2004</u>
Personnel costs		
Salaries and wages	\$1,640,903	\$1,537,442
Fringe benefits	<u>570,615</u>	<u>594,089</u>
Total personnel costs	<u><u>\$2,211,518</u></u>	<u><u>\$2,131,531</u></u>

See Accompanying Notes To Financial Statements

Barry County Community Mental Health Authority
Supporting Schedule of Operating Expenditures
For the Year Ending September 30, 2005 and 2004

Governmental Fund Types

General Fund

	<u>2005</u>	<u>2004</u>
Operating expenditures		
Communications	\$18,158	\$14,812
Contractual services	1,550,471	1,446,194
Inpatient services	293,692	316,394
Insurance	29,439	24,512
Medicaid local draw down	45,634	45,634
Meetings and conferences	11,304	8,036
Other	14,893	11,556
Rents	304,690	297,025
Repairs and maintenance	28,761	13,907
Printing and publishing	9,555	3,168
Supplies	46,375	35,560
Travel and transportation	129,203	121,869
Utilities	7,258	7,006
	<hr/>	<hr/>
Total operating expenditures	<u>\$2,489,433</u>	<u>\$2,345,673</u>

See Accompanying Notes To Financial Statements



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Barry County Community Mental Health Authority
Hastings, Michigan

We have audited the financial statements of the governmental activities and each major fund of Barry County Community Mental Health Authority (the Authority) as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Authority in a separate letter dated December 6, 2005.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Co, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 6, 2005



RECEIVED
DEPT. OF TREASURY

MAR 29 2006

MANAGEMENT LETTER

LOCAL AUDIT & FINANCE DIV.

Board of Directors
Barry County Community Mental Health Authority
Hastings, Michigan

In planning and performing our audit of the financial statements for Barry County Community Mental Health Authority for the fiscal year ended September 30, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated December 6, 2005 on the financial statements of Barry County Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Co, PC

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 6, 2005

Prepare an Aged Trial Balance of Accounts Receivable

During our audit, we found that the accounts receivable department is not reviewing the aged accounts receivable listing on a regular basis. We recommend that an aged trial balance of accounts receivable be prepared and reviewed each month. Any balance over ninety days old should be listed on a supplementary schedule with a complete explanation of the reason why the balance has not been collected. Both these schedules should be given to the accounting department with copies available to other supervising personnel. In this way, balances which are past due can be monitored and perhaps collected before age makes collection impossible.

GASB Statement No. 45

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Organization consider the effects of GASB 45 on any current or future postemployment benefits packages.

The effective date for the Organization to implement this new standard is for the fiscal year ending September 30, 2010. However, earlier application is encouraged by the GASB.